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MARCH 14, 1988

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YOUR NEW GLOBAL MARKET

How to Win the World War for Profits and Sales

Texas Instruments CEO Jerry Junkins: prospering by becoming even more international

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FORTUNE

"If I made one mistake, it was delegating all the product development and not going to one single meeting."

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"Joe was able to harness his ego for the good of the firm. Bruce was not."

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"Wherever she is, I'm sure her skin looks dreadful."

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"There are more and more two- and three-vacuum homes today."

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"We think commercial banking is ruined forever in America."

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"The corporation believes in managing markets rather than freeing them."

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THE EDITOR'S DESK

P. PERRIN—SYGMA

The staff of FORTUNE France *with editor-in-chief Bunodière front and center*

THE CHALLENGES and opportunities of going global are the focus of this issue's cover stories, and as it happens, FORTUNE is expanding its own global commitments. Since 1983 we have published FORTUNE International, with a circulation of 105,000 outside the U.S. Now, with a European partner, we have launched FORTUNE *France*, a monthly French-language edition that will consist mainly of original material produced in Paris. Issue No. 1 appeared in February. The press run was 80,000; over 80% of the newsstand copies in Paris sold out in the first ten days.

JAMES LUKOSKI

Johnson and first cover

FORTUNE *France* is a joint venture of Time-Life and the Hachette Filipacchi group, which publishes many magazines including *Elle*, *Paris-Match*, and *Le Nouvel Economiste*, France's leading business weekly. The venture was arranged by William S. Rukeyser, my predecessor and until recently Time Inc.'s director of international business development. The editor-in-chief of FORTUNE *France* is the spirited and energetic Claude Bunodière, who spent 12 years at *Le Nouvel Economiste* before joining FORTUNE *France*. In charge of editorial liaison with the new magazine will be Keith Johnson, a member of FORTUNE's board of editors, who was based in Paris for two years as a correspondent for *Time*.

French publications tend to write about business in an abstract way, says Bunodière. She aims to emphasize the decision-makers who influence events, and to publish "a really internationally minded magazine." She adds: "We want to catch the FORTUNE spirit of accurate, thorough investigation."

We think she is succeeding brilliantly. *Vive la* FORTUNE *France!*

Marshall Loeb

MANAGING EDITOR

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ENTERING A NEW AGE OF

There's no place to hide as global companies build, buy, and sell across borders. But why hide? Wealth is multiplying, along with the markets it sustains. ■ *by Richard I. Kirkland Jr.*

THINKING about going global? Friend, you're too late. The train has already left. Today the competition for goods, services, and ideas pays no respects to national borders or the old geopolitical divides that supposedly separate North from South, East from West. In this and the two stories that follow, FORTUNE describes why the world of business is changing so dramatically, how managers are rising to the challenge, and what governments can—and cannot—do to smooth the path.

Do you doubt that the new rules of the global village apply to you? Consider:

■ A one-world market exists for products ranging from cars to consumer electronics to carbonated drinks. Build a better microchip in Omaha, and buyers will be there from Osaka to Oslo. As producers go global, so must suppliers, be they bankers, brokers, or auto paintmakers. Last year IBM's sales from overseas operations as a share of total revenues hit 54%. Smaller fry, too, can win large pay-offs by selling globally. Foreign sales among the high-growth members of the American Business Conference, whose revenues average $360 million a year, grew at a 20% annual clip from 1981 to 1986—five times faster than the U.S. average.

■ Even if you don't export, your competitors are likely to hail from all over. See how foreign manufacturers, including many from the so-called Third World, hastened the industrial sunset for USX, LTV, and America's other stay-at-home steelmakers. Now squint into the sunrise and ask American Express about the high-quality, low-cost software programming it gets from Bombay-based Tata Consultancy Services.

■ Instead of competing with you, your overseas rival may buy you. Already this year, Firestone has agreed to sell most of its tire business to Japan's Bridgestone Corp. In 1987 British Petroleum, Unilever, and Hoechst took three of the seven top spots on FORTUNE's ranking of the U.S. Deals of the Year. Roughly half of American chemical workers toil for owners from abroad. So do Bruce Springsteen and Michael Jackson, since Sony plunked down $2 billion for CBS Records. Only about 4% of America's work force is employed by companies owned in whole or in part by foreigners; in Western Europe, the average is over 15%. But as the dropping dollar turns the world's biggest market into the world's bargain basement, the U.S. percentage seems set to climb rapidly.

REPORTER ASSOCIATE *Carrie Gottlieb*

■ Corporate winners increasingly treat the rest of the world as a source of supply as well as demand. Sales between subsidiaries of the same company are generally thought to account for at least one-quarter of global trade, and around 50% of U.S.-bound exports from some countries, such as Mexico and Singapore. More important, if harder to quantify, are international transfers of technology. These range from IBM's recent breakthrough in superconductivity research, generated in its Zurich lab, to low-end innovations like Procter & Gamble's liquid Tide, made with a water-softening compound developed in Europe. Christopher Bartlett, an associate professor at Harvard business school, argues that "competitiveness is already beyond the reach of the purely national company." New products are getting costlier and harder to develop, and shorter life cycles mean that companies have to develop them and get them to global markets faster than ever.

■ To transform global challenges into new opportunities, smart companies seek common cause where they can with foreign competitors. Thus even as Ford Motor and Fiat clashed over the carcass of Italy's bankrupt Alfa Romeo in a bitter takeover fight two years ago, their truck-making joint venture kept gaining market share in Britain. AT&T's four-year-old European joint venture in telephone switches with Philips has remained in the red. But

AT&T's narcoleptic U.S. computer business was reawakened last year after Carlo de Benedetti of Olivetti, its Italian joint venturer, lent it one of his top lieutenants.

■ Finally, even if you run a drugstore in Knoxville and all of the above seems irrelevant, you still need to cultivate a more planetary planning horizon. The cost of the merchandise you sell, the sales pitches that captivate your customers, even the price of your mortgage and the size of your tax bite, increasingly reflect the exotic influence of

BOUNDLESS COMPETITION

PABLO BARTHOLOMEW—GAMMA/LIAISON

■ **TIED TO TEXAS BY TECHNOLOGY:** *A satellite dish is the gateway to Texas Instruments' global network for TI's semiconductor design engineers in Bangalore, India.*

decisions made on the Tokyo stock exchange, launched over lunch by London admen, or devised by monetary boffins in the bowels of West Germany's Bundesbank. As Mikhail Gorbachev noted recently, "Comrades, not one state in the world today can regard itself isolated from others in the economic respect." So ask not. It tolls for thee.

For countries as well as companies, the emergence of a global economy generates big worries—but even larger opportunities. Many Americans feel disturbed and threatened by the postwar shrinkage in their country's economic clout. But only some of the losses in America's share of global GNP since the 1950s have been self-inflicted. Mainly they were the inevitable result of the happy fact that Western Europe and Japan have grown stronger and richer. Had those nations stagnated rather than prospered, the U.S. could have remained the world's undisputed economic champ. But America and her allies would all be poorer and less secure.

Now voters and policymakers in all the advanced industrial economies confront a bigger adjustment challenge. They must resist the temptation to see the growing good fortune of Asia's Four Little Dragons and other developing countries as a diminution of their own. Says Irving Leveson, senior vice president at the Hudson Strategy Group: "People tend to focus on Third World countries as competitors and overlook the fact that these are also going to be major markets." The

process of creating wealth globally is anything but a zero-sum game.

Though it has only recently been popularized by management consultants and Madison Avenue mavens, globalization is an ancient trend. The inexorable intertwining of the world's economies was nurtured by the development of capitalism itself. For the past 250 years annual growth in international trade has generally outstripped yearly GNP growth in the advanced industrial economies. Apart from a series of setbacks in the late 19th century, the only significant break in that pattern came between 1914 and 1950—when two giant wars and a decade of virulent protectionism blasted a gaping hole in the world economy.

NOR IS INVESTING internationally a new development. For example, in 1913 nearly half of Britain's savings flowed abroad in search of higher returns. Notes Harvard economist Jeffrey Sachs: "All the deregulation and expansion of recent years are only now returning us to the level of international capital mobility we enjoyed in 1913."

What is profoundly different today is the speed and scope of growth in global markets. Advances in transportation have fueled a revolutionary expansion in trade and travel. Among the leading Western industrial powers, the percentage of GNP absorbed by foreign trade has almost doubled since 1960. Some 325 million travelers a year now venture outside their own borders, compared with just 25 million in 1950. Satellite-linked electronic networks speed ever greater volumes of information around the planet at ever lower cost.

As time and space shrink, the process of wealth creation spreads. Between history's dawn and the mid–20th century, fewer than two dozen nations had ever managed to hoist themselves onto the path of sustained economic growth. Now long-term increases in real GNP per capita, mirrored by steady rises in such nonmonetary measures of wealth as life expectancy and education, have become commonplace in most countries. The tragic laggards who have yet to climb aboard the development bandwagon—Haiti, Bangladesh, much of sub-Saharan Africa—are the exception, not the rule.

On average, for example, the 2.4 billion citizens of what the World Bank classifies as "low-income economies" now live 11 to 13 years longer than they did two decades ago. Roughly 10% of college-age Brazilians, Indians, and Turks today sign up for higher education—just a bit less than the percentage Britain, Italy, and Japan boasted in 1965. In Thailand and South Korea, the comparable figures are 23% and 26%, up from just 2% and 6%, respectively, in 1965.

IN AN EVER RICHER, better-educated world, where modern technologies and training methods are easily transferable, nations once exiled to what historians dub the periphery of the global economy can increasingly penetrate its old industrialized core. Since 1965 the developing countries' share of world manufactured exports has risen from 7.3% to more than 17%. Hong Kong, South Korea, Singapore, and Brazil now rank among the top 20 exporters of manufactured goods, as tallied by the World Bank. In 1965 no developing country even made the top 30.

W. W. Rostow, a distinguished economic historian at the University of Texas, is confident that over the next 50 years China, India, and most of Latin America will take large strides down the trail blazed by Japan and South Korea. Consider India. Since 1950 the number of Indians with degrees in science or engineering has blossomed from 190,000 to 2.6 million—a talent pool exceeded only by the U.S. and the Soviet Union. Observes Rostow: "Even discounting for quality, that's an impressive critical mass."

In one small but notable preview of things to come, Indian software companies have recently begun to make inroads in the U.S. and Europe. Says Ajit Sawant, New York office manager of Bombay-based Tata Consultancy Services: "Software is an ideal product for India because it requires good people and little capital. And we can export it by air." Adds Girish Parikh, a Chicago-based software consultant: "India's software rush is on. The world's 70 billion lines of COBOL code are our acres of diamonds."

Unquestionably, these new Third World competitors will force further painful restructuring in the First World. But as the U.S. experience since the early 1970s shows, overall employment will keep rising as long as workers are willing to shift into new industries and services. Nor must the West "deindustrialize." Furious automation can allow manufacturing to maintain its share of total output, as it has for the past few decades. Low-wage, high-productivity competitors will continue, however, to chip away at blue-collar manufacturing jobs in

TOM SPHOOS

■ **JAPANESE INVESTMENT AT WORK:** *The brew is red, white, and blue. But the owner of the Salem, New Hampshire, plant is Japan's Kirin Brewery Co., a major U.S. Coke bottler.*

DAVE BARTRUFF

■ **PEKING FRIED CHICKEN:**
Finger-lickin' demand meets supply in Kentucky Fried Chicken's largest restaurant, opened recently in China's capital.

North America, Japan, and Western Europe.

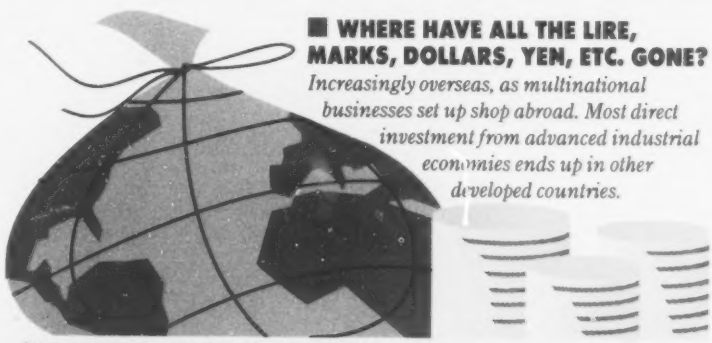
The good news is that countries playing catch-up—as Japan did with the U.S.—tend to grow considerably faster than the already arrived. Measured by GNP per capita, the advanced industrial countries, including Japan, grew only 2.4% on average from 1965 to 1985. Meanwhile growth climbed at a 4.8% annual clip in China and Indonesia, over 4% in Brazil and Malaysia, and 6% or better in the Little Dragons. Even now, despite the burden of largely unrepayable debt many of them carry, developing countries account for one-third of U.S. exports. Since GNP per capita doubles in just 18 years at a 4% annual clip, that share can only swell as we enter the 21st century. Says Albert M. Wojnilower, managing director of First Boston Corp.: "The only sustainable export market is among the developing countries."

Interdependence among the developed countries has been accelerated by a remarkable boom in foreign direct investment (see chart). To capture customers who demand constant innovation and rapid, flexible response, executives everywhere have concluded that they can no longer afford to export from a single country—or even a single continent. "North America, Japan, and Europe are the major world markets," says Anders Scharp, president of Swedish appliance giant Electrolux, which has spent more than $1 billion since 1984 on acquisitions in Europe and the U.S. "To stay competitive, you must have a significant presence in at least two of them and probably all three." Compared to the multinationals of yore, these self-styled global enterprises put far more effort into integrating manufacturing, R&D, and marketing strategies across borders.

Politicians and labor leaders, unlike businessmen, naturally take a more parochial view of global investment flows. Far too many instinctively denounce local corporations that invest abroad as job "exporters," even though they welcome foreign investors in their own countries as job creators. And like England's F. A. McKenzie, whose book *The American Invaders* denounced the U.S. takeover of British industry back in 1902, a growing number of U.S. citizens today xenophobically view the current tide of American asset sales as a dangerous assault.

Relax, guys. Foreign-owned companies account for more than 20% of industrial production in West Germany and more than 50% in Canada. In Brazil $30 billion of foreign investment is largely responsible for that country's growing automotive, office equipment, farm machinery, and pharmaceutical industries. And none of these countries has experienced the slightest loss of sovereignty.

Indeed, in an ever more integrated global economy, the ability of any nation's industries to gain or protect world market shares—the ultimate gauge of their ability to produce jobs—will increasingly be determined by the efficiency with which companies make as well as manage their overseas investments. Ford and IBM, for example, might well be generating less U.S.-based employment today had they not been able earlier to invest abroad—both by "outsourcing" the production of components to low-wage countries like Mexico and by establishing assembly plants and R&D centers in Europe and Japan. Except in cases that raise legitimate concerns about "national security"—the purchase of a major defense contractor, say—countries will generally find



■ **WHERE HAVE ALL THE LIRE, MARKS, DOLLARS, YEN, ETC. GONE?**
Increasingly overseas, as multinational businesses set up shop abroad. Most direct investment from advanced industrial economies ends up in other developed countries.

Direct investment in other countries (including reinvested earnings) in millions of U.S. dollars

	1960	1970	1980	1986
U.S.	$2,940	$7,589	$19,220	$28,050
Japan	79	355	2,385	14,480
W. Germany	139	876	4,180	8,999
Britain	700	1,308	11,360	16,691
Canada	52	302	2,694	3,254
France	347*	374	3,138	5,230
Italy	−17*	111	754	2,661

*1961 figures.

SOURCE OECD

themselves best served by adopting Lord Lever's view on foreign investment. The British lawyer, businessman, and statesman's rule is not to "give a damn who owns my industries as long as they're successful."

The growing irrelevance of borders for corporations will force policymakers to rethink old approaches to regulation. Might not industrial mergers that would once have been barred as anticompetitive make sense if the true measure of a company's market share is global rather than national? "Antitrust laws exist to protect consumers, while trade laws are mainly concerned with producer interests," notes Diane Wood, a law professor at the University of Chicago. "Sooner or later both will have to merge under the heading of something called competition law."

STILL, would-be global strategists cannot afford to ignore national differences. Recently David Roche, London-based European equity strategist for Morgan Stanley, tracked movements in international stock markets since the mid-1970s against those of the U.S. market. His goal was to see if a decade of soaring cross-border investing by financial institutions had begun to push them toward greater commonality. "If anything, I found the divergence has increased," he reports. Roche's conclusion: The significance of stock markets as "a barometer" of the health of widely varying domestic economic and financial policies far outweighs the importance of global trends that affect specific industries.

The stresses of global competition were bound to fire up protectionists and give rise to a new general testiness about free trade. So it is all the more encouraging that political leaders keep trying to stretch borders. The world's long march toward economic global villagedom should accelerate considerably in the next few years if the recent U.S.-Canada free-trade pact and the European Economic Community's drive to create a truly common market by 1992 proceed as planned.

The 18th-century philosopher David Hume advised the nations of his day that if they would "all remain industrious and civilized," none need fear its neighbors' successes, and all might prosper together. His advice still holds. As long as goods and capital continue to circulate at least as freely as they do today, the global economy can remain divided into 186 competing nation-states and still deliver an unprecedented expansion in wealth. Our common challenge is to ensure that we remain industrious and, above all, civil. F

THE LONG ARM OF JERRY JUNKINS

The competitive rigors of the new global marketplace are beating the complacency out of all sorts of companies—even those long accustomed to doing business overseas. Jerry R. Junkins, 50, the quiet-voiced chief executive of Texas Instruments, is prominent among the top managers who saw the changes coming and expect to profit from facing them early. TI, a longtime leader in microchips, had been operating in Asia for over two decades before Junkins took charge in 1985. But far from exhibiting global sophistication, the company was structured in ways that encouraged executives from Abilene to Osaka to focus on small bits of local turf. Aiming for worldwide efficiency, Junkins—who has run almost all of TI's domestic operations but never worked overseas—is trying to change all that.

MARK SELIGER

The worldbeater at home

He wants managers who can look beyond their own fiefdoms to consider the capabilities and needs of the company as a whole. At TI, Junkins faced cadres of overseas managers accustomed to controlling the factories that made the products they sold. That contributed to a buildup of excess capacity that reached daunting proportions in 1985, when the bottom fell out of the international semiconductor market.

Junkins has taken strong steps to discourage parochialism among his managers. For example, Akira Ishikawa, the executive running TI's operation in Japan, had to broaden his perspective when he was given responsibility for TI's worldwide memory-chip business as well. In Japan, a voracious consumer of memory chips, customer demand so far outstrips the limits of TI's local factories that adding capacity is tempting indeed. But now that global efficiency is also his goal, Ishikawa must question investment in new Japanese plants while spare capacity exists elsewhere.

The carrot is just as important as the stick in Junkins' scheme. When TI's Japan unit decided to order memory chips from a TI plant in Lubbock, Texas, it was rewarded with that plant's firm commitment to maintain shipments to Japan even if demand picks up in the U.S.

That kind of cooperation is crucial to the new TI. The company requires that managers with global responsibility meet with their overseas colleagues every quarter to set worldwide strategy. Gathering in small groups, the executives hash out the inevitable conflicts in their investment and product-development plans. Their task is done only when they have produced a detailed agreement specifying how much money will be spent on which program, and where. As a symbol of commitment to the plan, each manager in turn must stand up and write his or her name on a blackboard, while the group leader memorializes the event with a Polaroid picture. On a day-to-day basis, TI staffers stay in touch by using the company's network of more than 40,000 terminals in 50 countries.

Junkins believes this new organization can learn to squeeze profits out of the cutthroat memory-chip business while gaining the valuable technological edge that comes with the production of customized chips. In custom chips, clients design their own products around the producer's manufacturing technology. TI's worldwide strategy meetings ensure that the company knows enough about its customers' needs to invest in the manufacturing technologies that will satisfy the greatest numbers of buyers, no matter where they come from. The strategy seems to be working: After steep losses in 1985, TI has posted seven consecutive quarters of profit. In the troubled semiconductor business, that counts as a win. **— Andrew Kupfer**

WHAT GOVERNMENTS SHOULD BE DOING

Radical reforms are not required. But the major countries will have to work together to smooth currency swings, ease trade barriers, and regulate financial markets. ■ *by Sylvia Nasar*

Exhortations to think globally are well and good, but what do you take for the migraine you get from contemplating the messy and unpredictable theater of international economic policy? Volatile exchange rates make doing business across borders a pain. Every time you turn around there's a new non-tariff trade barrier in the country you were planning to enter. The financial markets look as if they might implode any day, as they almost did on October 19.

Radical reforms aren't likely. Most such proposals suffer from grave technical flaws and call for sacrifices of national sovereignty that few countries are willing to make. But Big Solutions aren't required to begin dealing with the worst problems—just a series of actions that demand no more political will than the major nations should be able to muster.

Gyrating exchange rates—led by the dollar's Icarian rise and fall—are the worst offenders of global economic order these days. Says international economist Jagdish Bhagwati at Columbia University: "We have survived floating rates, but not in a pleasant way." Currency values have been set by the marketplace since the 1973 collapse of the Bretton Woods agreement that fixed rates after the end of World War II. Economists dub the present system the "dirty float" because central banks frequently intervene and the currencies of smaller countries have mostly been pegged to the dollar or the deutsche mark.

Exchange rates have been extraordinarily volatile. Determined in the short run mainly by immense capital flows, the rates are forward-looking and jumpy just like the prices of stocks, bonds, and other assets, and can stray far from fundamentals like relative rates of inflation, productivity growth, savings, and investment. Speculators have made the swings bigger. Many economists think the speculators were responsible for the dollar's surge in the latter half of 1984, for example, and fear a similar downward spiral that could lead to a complete collapse.

REPORTER ASSOCIATE *Edward Prewitt*

■ **SEEKING STABLE CURRENCIES:** *U.S. Treasury Secretary James A. Baker III would use commodity prices as a guide.*

Wouldn't life be simpler if fixed exchange rates were again the rule? After all, the world economy thrived under Bretton Woods. French finance minister Edouard Balladur has said, "I believe that we are living at the end of the period of floating exchange rates, and I think it is time to return to a system as automatic and as constraining as possible." A constraint that appeals to U.S. Treasury Secretary James Baker is an index of commodity prices. If it begins to soar, the major countries would rein in monetary growth to ward off inflation.

continued

LOOKING AHEAD

Some old-timers, including President Reagan, would like to see the world go back on the gold standard. But that would place the globe's money supply at the mercy of shortages and gluts engineered by the two main producers of gold, South Africa and the Soviet Union. Anna Schwartz, staff director of the 1981 federal commission on the matter, concludes that gold bugs, "like Miniver Cheevy, probably were born too late."

One alternative is what economists Ronald McKinnon of Stanford University and Robert Mundell of Columbia call "an international gold standard without gold." The major industrial countries would fix exchange rates and set a target for the growth of the world's money supply designed to achieve stable prices. They would have to stay within assigned domestic credit limits and buy or sell their currencies in international markets as often as required to keep rates stable.

The system McKinnon and Mundell propose is tidy, but there are problems. The "right" exchange rates shift over time as productivity grows at different rates in different countries. And no major player is willing to pay the political costs of fixed-rate systems. Says former Council of Economic Advisers chairman Martin Feldstein: "We are simply not prepared to give up our sovereignty."

More plausible is a system of quasi–fixed rates resembling the generally successful European Monetary System. The most detailed proposal comes from John Williamson, senior fellow of the Institute for International Economics, a Washington, D.C., research organization. Williamson would have the major countries set targets for exchange rates and agree to keep swings within 10% on either side. To stay within the boundaries, governments would intervene in currency markets by buying and selling their currencies and would also adjust domestic monetary policies to raise or lower interest rates.

NO CIGAR here, either. Picking the correct exchange rate is virtually impossible, and picking the wrong one can be disastrous. Witness the turmoil that followed when the major industrial nations, the so-called Group of Seven, last year tried to stabilize the dollar at what turned out to be too high a rate. Deciding which country should make the adjustments—should West Germany ease its monetary policy or the U.S. tighten?—has proved difficult too, especially since economists disagree profoundly over the effects of any given change in monetary policy. Because fiscal policy can influence real interest rates, countries would have to coordinate their budgets—one of the reefs upon which fixed exchange rates also founder.

Which leaves us with the current system. Like Churchill's democracy, it is the worst except for all the rest. "Two cheers for flexible exchange rates," says Harvard economist Richard Cooper. "This has been a turbulent era—three oil shocks, two world recessions. The system didn't solve the problems, but it eased the adjustment."

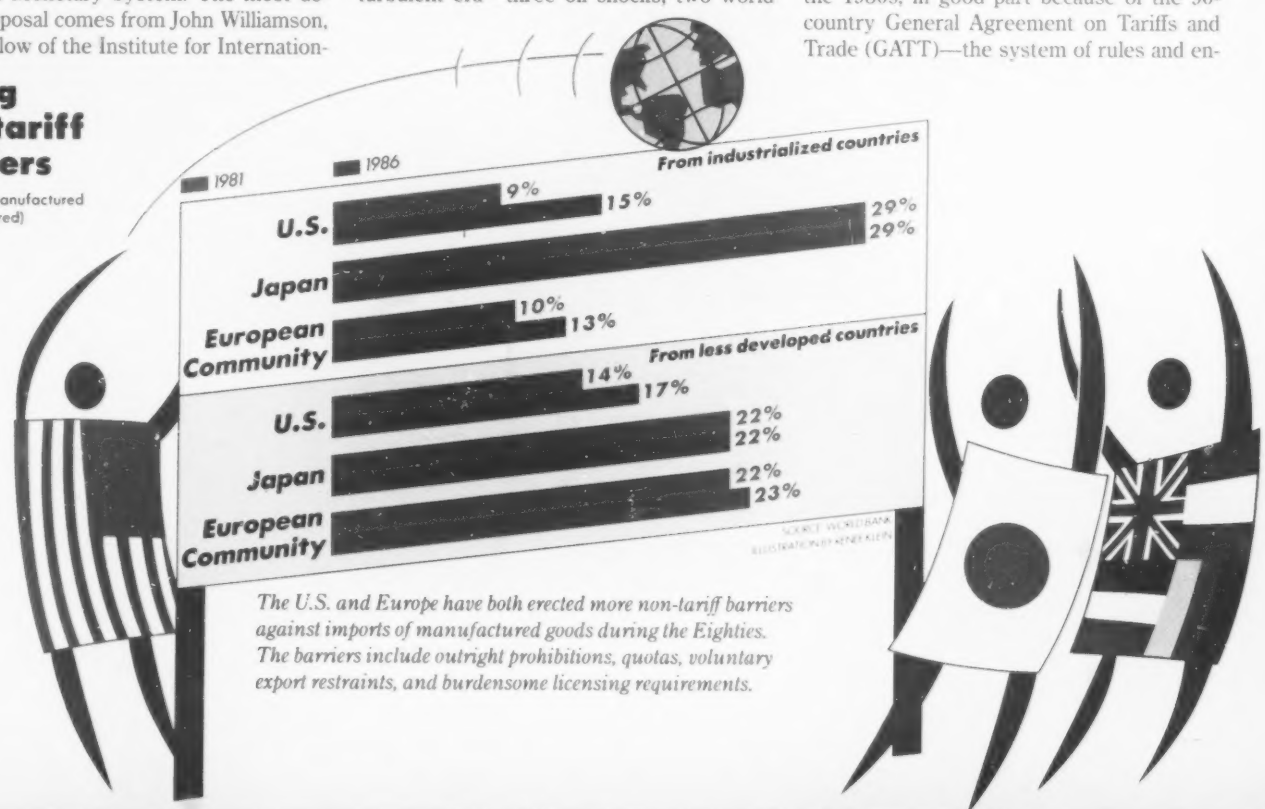
The faults of the dirty float have been exaggerated. Currencies got out of line under Bretton Woods too—wrenching revaluations often were required—and the volatility in recent years has not prevented world exports from rising faster than GNP. The upsurge of protectionist sentiment has as much to do with the dynamism of the Pacific economies as with misaligned exchange rates. On the positive side, floating rates have let countries manage their own economies with salubrious effect when they did so wisely. West Germany, for example, was able to achieve low inflation while the rest of the world was inflating at double-digit rates during the late Seventies.

How to achieve more stable currencies under the float? The basic requirement is for governments to pursue more responsible—and predictable—monetary and fiscal policies. That means, for starters, reducing the huge imbalances, i.e., the U.S. current account deficit and the German and Japanese surpluses. Stronger international surveillance of domestic policies would also help—if only to spur international dialogue and bring more peer pressure to bear on wayward nations.

If currency fluctuations leave the growth of the global economy more uncertain, trade barriers can bring it to a halt. The world has come a long way since the trade-dead years of the 1930s, in good part because of the 90-country General Agreement on Tariffs and Trade (GATT)—the system of rules and en-

Rising non-tariff barriers

(Percent of manufactured imports covered)



The U.S. and Europe have both erected more non-tariff barriers against imports of manufactured goods during the Eighties. The barriers include outright prohibitions, quotas, voluntary export restraints, and burdensome licensing requirements.

forcement that governs international trade disputes. Tariffs on manufactured goods fell from an average of 40% in 1947 to around 5% last year. Since the mid-Seventies, however, the trading system has been crumbling. GATT rules are increasingly flouted and nontariff barriers have been multiplying in many countries (see chart). The U.S., the traditional champion of trade liberalization, has turned more protectionist.

GATT could be revitalized if negotiators bring their best to the so-called Uruguay Round of trade talks. Begun last year, the Round will continue until 1992; on the agenda are such critical problems as agricultural subsidies, restrictions on services, and non-tariff barriers. What should U.S. negotiators be focusing on? Revising Article XIX of the GATT is central to stemming the growth of non-tariff barriers. The article allows member countries to impose tariffs on imports that harm their domestic industries. A revision long supported by the U.S. and now on the agenda should serve as a safety valve for protectionist pressures by making it easier for countries to impose such tariffs. The trade-off: stronger requirements that the relief be in the form of a temporary, declining, and nondiscriminatory tariff—meaning that it would be applied, as required by GATT's most favored nation principle, to practically all nations.

Agricultural trade, exempted from most GATT rules, has bloomed into a major scandal. Price supports, import barriers, and export subsidies distort trade flows in nearly all industrialized countries. Without doing much for the small farmers they supposedly benefit, these policies make world prices less stable and leave consumers and taxpayers some $64 billion a year poorer.

The prospects for change are starting to look a bit more promising. The U.S. will probably bring the subject up at Uruguay, and other countries will listen. Most big producers, including the European Economic Community and the U.S., are strapped with large budget deficits, and most industrialized countries now are major exporters of agricultural products. Goals might include phasing out export subsidies and establishing some minimal level of access for imports in highly protected markets.

Bringing services under GATT would ease such restrictions as onerous visa requirements and prohibitions on foreign direct investment. The U.S. would be the biggest gainer, since it has a comparative advantage in financial services such as securities trading and bank lending. But freer trade would increasingly help developing countries like South Korea and India, who have an edge in such services as construction and computer software. U.S. trade negotiators are cautiously optimistic.

■ **FRANCE'S FANCIER OF FIXED EXCHANGE RATES:** *Finance Minister Edouard Balladur longs for constraints.*

NOT ALL THE FORCES at work these days are narrowing the flows of commerce. Capital moves far more freely than goods. Barriers such as exchange controls and limitations on foreign ownership have been falling for a decade. Companies around the world have unprecedented opportunities to diversify risk and shop around for better deals than they can get at home.

The main worry, in fact, is that the global ebb and flow of capital is heading out of control. Foreign investors get burned in markets with lax disclosure regulations; deals fall through because of polyglot clearance and settlement systems. The biggest threat: huge multinational financial outfits that operate outside the purview of any single regulatory body. Says David Ruder, chairman of the Securities and Exchange Commission: "There is no place that the financial conglomerates' total risk position is revealed to regulators." Sober analysts can all too easily imagine a failure or fraud in one corner of a far-flung institution that could cascade through the entire system.

Regulators in most industrial countries are edging toward cautious efforts to harmonize regulatory standards. Says Robert Hormats, a vice chairman of Goldman Sachs: "The point is not to make regulation the same across all markets but to reduce disparities." In a first step late last year, the Bank of England and U.S. regulatory agencies, including the Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation, negotiated a 12-country agreement to standardize bank reserve requirements against bad loans.

The routine sharing of information among regulatory agencies in different countries is also key. The SEC has already negotiated such agreements with Japan, Britain, and Switzerland. Among other areas to concentrate on: clearance and settlement systems in securities markets, capital requirements for commercial and investment banks, and barriers to foreign competitors who wish to enter domestic financial markets. Investors need comparable international standards for accounting, auditing, and other checks on information. Further down the road, regulators dream of a system to prevent fraud, including international prohibitions on insider trading, market misrepresentation, and market manipulation. And what if there is a repeal of the U.S.'s Glass-Steagall Act or Japan's Article 65, which now prohibit commercial banks from underwriting most types of securities? Regulators will need to think about setting capital requirements for stockbrokers as well as banks.

Some critics of the international marketplace argue that only an overarching regulatory body—a United Nations of regulation—can supervise the marketplace adequately. But most experts dismiss such schemes. "The hope that there will be some quick international adoption of standards is a pipe dream," says Meyer Eisenberg, a securities lawyer with Ballard, Spahr, Andrews & Ingersoll. The likelier model is the bank reserve agreement: cooperative arrangements to harmonize regulatory standards, worked out cautiously and piecemeal.

Half a loaf would almost certainly work better than the whole. Majestic international institutions cannot by themselves wring excesses out of the system. Far better to enunciate modest goals and pursue them vigorously in a forum that allows all parties plenty of chances to ventilate differences and jawbone each other. Nothing will do more to nurture the powerful trend toward globalization than enlightened self-interest. ■